

## Section 2

### Ethical Principles in Government Auditing

The December 2011 Revision to Government Auditing Standards emphasizes ethical principles as the foundation, discipline, and structure behind the implementation of the standards, including establishing five key ethical principles that guide the work of those conducting audits in accordance with the standards. Section II of the Audit Manual identifies the five key ethical principles and establishes the policy of requiring all auditors in the Office of the City Auditor to adhere to those principles.

Government Auditing Standards Section 1.11 establishes the following:

Because auditing is essential to government accountability to the public, the public expects audit organizations and auditors who conduct their work in accordance with generally accepted government auditing standards (GAGAS) to follow ethical principles. Management of the audit organization sets the tone for ethical behavior throughout the organization by maintaining an ethical culture, clearly communicating acceptable behavior and expectations to each employee, and creating an environment that reinforces and encourages ethical behavior throughout all levels of the organization. The ethical tone maintained and demonstrated by management and staff is an essential element of a positive ethical environment for the audit organization.

#### Ethical Principles

The following ethical principles provide a framework for applying GAGAS. Each principle is described, so that auditors can consider the facts and circumstances of each situation within the framework of these ethical principles.

Ethical Principle	Description
<p><b>Public Interest</b></p>	<p>The public interest is defined as the collective wellbeing of the community of people and entities the auditors serve. Observing integrity, objectivity, and independence in discharging their professional responsibilities assists auditors in meeting the principle of serving the public interest and honoring the public trust. These principles are fundamental to the responsibilities of auditors and critical in the government environment.</p> <p>A distinguishing mark of an auditor is acceptance of responsibility to serve the public interest. This responsibility is critical when auditing in the government environment. GAGAS embody the concept of accountability for public resources, which is fundamental to serving the public interest.</p>
<p><b>Integrity</b></p>	<p>Public confidence in government is maintained and strengthened by auditors' performing their professional responsibilities with integrity. Integrity includes auditors' conducting their work with an attitude that is objective, fact-based, nonpartisan, and non-ideological with regard to audited entities and users of the auditors' reports. Within the constraints of applicable confidentiality laws, rules, or policies, communications with the audited entity, those charged with governance, and the individuals contracting for or requesting the audit are expected to be honest, candid, and constructive.</p> <p>Making decisions consistent with the interest of the program or activity under important part of the principle of integrity. In discharging their professional responsibilities, encounter conflicting pressures from audited entity, various levels of government, likely users. Auditors may also encounter pressures to violate ethical principles to achieve personal or organizational gain. In resolving those conflicts and pressures, acting with integrity means that auditors place priority on their responsibilities to the public interest.</p>

Ethical Principle	Description
<p style="text-align: center;"><b>Objectivity</b></p>	<p>The credibility of auditing in the government sector is based on auditors' objectivity in discharging their professional responsibilities. Objectivity includes being independent in fact and appearance when providing audit and attestation engagements, maintaining an attitude of impartiality, having intellectual honesty, and being free of conflicts of interest. Avoiding conflicts that may, in fact or appearance, impair auditors' objectivity in performing the audit or attestation engagement is essential to retaining credibility. Maintaining objectivity includes a continuing assessment of relationships with audited entities and other stakeholders in the context of the auditors' responsibility to the public. The concepts of objectivity and independence are closely related. Independence impairments impact objectivity.</p>

Ethical Principle	Description
<p style="text-align: center;"><b>Proper Use of Government Information, Resources, and Position</b></p>	<p>Government information, resources, to be used for official purposes and not inappropriately for the auditor’s personal manner contrary to law or detrimental to interests of the audited entity or the audit concept includes the proper handling classified information or resources.</p> <p>In the government environment, the public’s right to the transparency of government information has to be balanced with the proper use of that information. In addition, many government programs are subject to laws and regulations dealing with the disclosure of information. To accomplish this balance, exercising discretion in the use of information acquired in the course of auditors’ duties is an important part in achieving this goal. Improperly disclosing any such information to third parties is not an acceptable practice.</p> <p>Accountability to the public for the proper use and prudent management of government resources is an essential part of auditors’ responsibilities. Protecting and conserving government resources and using them appropriately for authorized activities is an important element in the public’s expectations for auditors.</p> <p>Misusing the position of an auditor for personal gain violates an auditor’s fundamental responsibilities. An auditor’s credibility can be damaged by actions that could be perceived by an objective third party with knowledge of the relevant information as improperly benefiting an auditor’s personal financial interests or those of an immediate or close family member; a general partner; an organization for which officer, director, trustee, or employee; or an organization with which the auditor is negotiating concerning future employment.</p>

Ethical Principle	Description
<b>Professional Behavior</b>	High expectations for the auditing profession include compliance with laws and regulations and avoidance of any conduct that might bring discredit to auditors' work, including actions that would cause an objective third party with knowledge of the relevant information to conclude that the auditors' work was professionally deficient. Professional behavior includes auditors' putting forth an honest effort in performance their duties and professional services in accordance the relevant technical and professional standards.

**Office of the City Auditor Policy**

The City Auditor and all audit staff are required to adhere to and follow the five key ethical principles. On an annual basis, the City Auditor and all audit staff will review the five ethical principles and attest in writing that they will adhere to and follow the identified principles. In the event, the City Auditor or audit staff cannot comply with or adhere to the identified principles, they should immediately notify their appointing authority of the circumstances involving the ethical principles. See Annual Ethical Principle Statement below. Also, see below the Office of the City Auditor's Policy on Gifts and Form 700 Reporting, which all audit staff are required to follow to ensure they avoid circumstances that create a threat of bias that could impair independence.

**Annual Ethical Principle Statement  
Office of the City Auditor  
City of San Diego**

The December 2011 Revision to Government Auditing Standards emphasizes ethical principles as the foundation, discipline, and structure behind the implementation of the standards, including establishing five key ethical principles that guide the work of those who conduct audits in accordance with the standards. The ethical principles involve 1) public interest, 2) integrity, 3) objectivity, 4) proper use of government information, resources, and position, and 5) professional behavior. The City Auditor and all audit staff are required to adhere to and follow the five key ethical principles listed below. On an annual basis, the City Auditor and all audit staff will review the five ethical principles and attest that they will adhere to and follow the identified principles.

**Public Interest**

The public interest is defined as the collective well being of the community of people and entities the auditors serve. Observing integrity, objectivity, and independence in discharging their professional responsibilities assists auditors in meeting the principle of serving the public interest and honoring the public trust. These principles are fundamental to the responsibilities of auditors and critical in the government environment.

A distinguishing mark of an auditor is acceptance of responsibility to serve the public interest. This responsibility is critical when auditing in the government environment. GAGAS embody the concept of accountability for public resources, which is fundamental to serving the public interest.

**Integrity**

Public confidence in government is maintained and strengthened by auditors performing their professional responsibilities with integrity. Integrity includes auditors conducting their work with an attitude that is objective, fact-based, nonpartisan, and non-ideological with regard to audited entities and users of audit reports. Within the constraints of applicable confidentiality laws, rules, or policies, communications with the audited entity, those charged with governance, and the individuals contracting for or requesting the audit are expected to be honest, candid, and constructive.

Making decisions consistent with the interest of the program or activity under important part of the principle of integrity, discharging their professional responsibilities, encounter conflicting pressures from audited entity, various levels of government, likely users. Auditors may also encounter pressures to violate ethical principles to achieve personal or organizational gain. In resolving those conflicts and pressures, acting with integrity means that auditors place priority on their responsibilities to the public interest.

**Objectivity**

The credibility of auditing in the government sector is based on auditors' objectivity in discharging their professional responsibilities. Objectivity includes being independent in fact and appearance when providing audit and attestation engagements, maintaining an attitude

of impartiality, having intellectual honesty, and being free of conflicts of interest. Avoiding conflicts that may, in fact or appearance, impair auditors' objectivity in performing the audit or attestation engagement is essential to retaining credibility. Maintaining objectivity includes a continuing assessment of relationships with audited entities and other stakeholders in the context of the auditors' responsibility to the public. The concepts of objectivity and independence are closely related. Independence impairments impact objectivity.

### **Proper Use of Government Information, Resources, and Position**

Government information, resources, to be used for official purposes and not inappropriately for the auditor's personal manner contrary to law or detrimental to interests of the audited entity or the audit concept includes the proper handling of classified information or resources.

In the government environment, the public's right to the transparency of government information has to be balanced with the proper use of that information. In addition, many government programs are subject to laws and regulations dealing with the disclosure of information. To accomplish this balance, exercising discretion in the use of information acquired in the course of auditors' duties is an important part in achieving this goal. Improperly disclosing any such information to third parties is not an acceptable practice.

Accountability to the public for the proper use and prudent management of government resources is an essential part of auditors' responsibilities. Protecting and conserving government resources and using them appropriately for authorized activities are important elements in the public's expectations for auditors.

Misusing the position of an auditor for personal gain violates an auditor's fundamental responsibilities. An auditor's credibility can be damaged by actions that could be perceived by an objective third party with knowledge of the relevant information as improperly benefiting an auditor's personal financial interests or those of an immediate or close family member; a general partner; an organization for which officer, director, trustee, or employee; or an organization with which the auditor is negotiating concerning future employment.

### **Professional Behavior**

High expectations for the auditing profession include compliance with laws and regulations and avoidance of any conduct that might bring discredit to auditors' work, including actions that would cause an objective third party with knowledge of the relevant information to conclude that the auditors' work was professionally deficient. Professional behavior includes auditors' putting forth an honest effort in performance of their duties and professional services in accordance the relevant technical and professional standards.

I \_\_\_\_\_, auditor for the City of San Diego, have reviewed the stated ethical principles and pledge to adhere to the principles to the best of my ability. In the event, I cannot comply with or adhere to the identified principles I will immediately notify my appointing authority of the circumstances involving the ethical principles.

**Auditor's Signature:** \_\_\_\_\_ **Date:** \_\_\_\_\_

**City**

**Auditor's Signature:** \_\_\_\_\_ **Date:** \_\_\_\_\_

**Policy on Gifts and Form 700 Reporting  
Office of the City Auditor's  
City of San Diego**

Government Auditing Standards provides examples of circumstances that create a threat of bias for an auditor that could impair independence. One example is an auditor accepting gifts or preferential treatment from an audited entity, unless the value is trivial or inconsequential.<sup>1</sup> Therefore, City Auditor staff may not accept any gifts or preferential treatment from an auditee unless the value is trivial or inconsequential.

Examples of gifts with a trivial or inconsequential value are accepting a bottle of water, a cup of coffee made at the office, or a can of soda while working with an auditee. Examples of gifts exceeding a trivial or inconsequential value are allowing an auditee to purchase your lunch, or purchase a coffee for you at a coffee shop. If you are uncertain if a gift offered to you is trivial or inconsequential in value, you should not accept it. While each employee is the first to decide whether to accept any gift or favor, he/she must recognize that *others* will decide if there is an appearance of influencing an employee's, or the City's, actions. If you are uncertain, you can seek advice from the City Auditor prior to accepting a gift.

The [City of San Diego Employee Code of Conduct Handbook](#) also has restrictions on accepting gifts that must be followed by City Auditor staff:

"I.I Gifts/Favors

Employees shall not accept money or other consideration or favors from anyone other than the City for the performance of an act which they would be required or expected to perform in the regular course of their duties.

An employee is prohibited from accepting any gift from persons doing business with, or seeking to do business with, the City when accepting the gift might reasonably be interpreted as an attempt to influence his/her actions with respect to City business. [[Council Policy 000-04; A.R. 95.60, sec. 3.4](#)]

Comment: Compensation for performing public duties is limited to an employee's salary, benefits and any personal satisfaction he/she may receive in the performance of his/her job. While each employee is the first to decide whether to accept any gift or favor, he/she must recognize that *others* will decide if there is an appearance of influencing an employee's, or the City's, actions.

Gifts may include anything of economic value, whether in the form of money, service, loan, travel, entertainment, hospitality, item or promise. Employees are permitted to accept plaques, souvenirs or mementos of nominal value associated with a given event."

In addition, City Auditor staff must be familiar with and follow the restrictions and reporting requirements for gifts established by the State of California Fair Political Practices Commission (FPPC). The FPPC's guide regarding Limitations and Restrictions on Gifts, Honoraria, Travel and Loans guide can be found at <http://www.fppc.ca.gov/content/dam/fppc/NS-Documents/TAD/Public%20Officials%20and%20Employees/StateGiftFactSheet.pdf>.

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<sup>1</sup> Government Auditing Standards, Appendix I, Supplemental Guidance A3.05(d).

The rules and requirements for the FPPC Form 700 – Statement of Economic Interest must be reviewed and filed by all City Auditor staff when they initially accept a position with the Office of the City Auditor and then annually each calendar year thereafter. The Form 700 can also be found at: <http://www.fppc.ca.gov/Form700.html>.

Each City Auditor staff member should file the Form 700 through the City Clerk's electronic filing system, and instructions can be found at: <http://citynet.sannet.gov/cityclerk/pdf/howsei.pdf>.